MARKET COMMENTARY

DAVENPORT
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1863

MAY 2023

- The best performing sector in April was Communication Services
- First quarter earnings season has seen results exceed expectations
- Tight labor markets presisted in April

Markets worked generally higher in April as investors digested the challenges in the financial sector fueled by recent bank failures. With widespread financial contagion appearing less likely, investors felt confident to support rising markets with large-cap leaders pushing the Dow and S&P 500 higher. Against this backdrop, the VIX Index or "fear gauge" which started the month at a little under 19 moved lower through the month ending under 16. For the full month, the Dow Jones Industrial Average increased 2.5%, the S&P 500® index was up 1.5%, and the smaller cap-weighted Russell 2000® declined 1.9%.

The best-performing S&P 500 sector in April was Communication Services which increased 3.6% and was closely followed by the Consumer Staples sector which was up 3.4%. The weakest performance in the month was posted by the Industrials sector which decreased by 1.2% followed by the Materials sector which was down 0.2%. For the prior twelve-month period, the Energy sector was the best performer with an 11.6% increase followed by the Information Technologies sector which was up 2.5%, while the Real Estate sector was the worst performer for the past twelve months with a 22.7% decrease followed by the Consumer Discretionary sector which was down 14.8%.

First quarter 2023 earnings season has seen results exceed street expectations, with narrow leadership from a handful of mega-cap issues providing large cap support this year. On the economic front, news remains mixed with first quarter GDP growth falling short of economist forecasts coming in at up 1.1% which contrasts with forecasts of 1.8%. Although avoiding recession for the start of the year, the 1.1% GDP increase represents a marked slowdown from healthy GDP gains recorded last fall in the 3Q at 3.2% and the 2.6% growth rate registered into yearend.

Where to from here?

The April release from the Bureau of Economic Analysis (BEA) recapping March Personal Income and Spending pointed to inflation as running above Fed targets. Personal income ramped by 0.3% month over month as expected, while spending stagnated (slightly stronger than the -0.1% forecast). Headline Personal Consumption Expenditures (PCE) grew in line with expectations for the month, rising by 0.1%, while Core PCE that excludes energy and food costs ramped by 0.3% (again in line with economist forecasts). However, headline PCE ran at 4.2% in March, down from 5.1% in February. Although PCE inflation trends have shifted down, the Employment Cost Index (primarily salary and wages) ramped by 1.2% in the quarter. On a 12-month basis, employment costs trends ran at 4.8% through March 2023 – a faster pace than the 4.5% rate that occurred for the 12 months ended March 2022 as both wages and benefits ramped sharply. That is, while supply chains have pretty well normalized, and shortages of many consumer and capital goods have eased, tight labor markets have persisted sustaining wage and benefit trends at elevated levels.

House Speaker McCarthy (R – CA) succeeded in corralling House Republicans behind his debt limit plan called the Limit, Save, Grow Act of 2023. The House GOP plan offers to increase the debt limit by $1.5 trillion or until the end of March 2024, whichever comes first, and includes $4.5 trillion in savings by cutting discretionary spending to fiscal year 2022 levels and limiting future increases. The package also reclaims unspent COVID funds, cancels the President's student loan forgiveness program, rescinds new funding for the Internal Revenue Service, and enacts work requirements for federal Medicaid programs. With Democrats controlling the Senate, McCarthy's proposal appeared to fall flat with the Biden team expected to trim the spending cuts before sending a revised bill back to the House for consideration. Although we sense that Biden and Republicans will likely cut a deal before the mid-summer x-date we expect the effort comes down to the wire with a threat of default and or federal government shutdown arising potentially creating investor angst over the next two months.

Selectivity remains critical today with fixed-income alternatives also offering attractive short-term returns. For equities, we see enhanced potential returns arising among those stocks possessing less exposure to interest rates and marketing specialized products/services remaining in demand that enhances pricing power, sustains earnings growth and solid free cash flow generation that should drive appreciation over the intermediate and longer term.

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MARKET AND ECONOMIC STATISTICS

Market Indices:	**4/28/2023**	**12/30/2022**	**% Change YTD**	**3/31/2023**	**% Change (Monthly)**
S&P Composite	4,169.48	3,839.50	8.59%	4,109.31	1.46%
Dow Jones Industrials	34,098.16	33,147.25	2.87%	33,274.15	2.48%
NASDAQ Composite	12,226.58	10,466.48	16.82%	12,221.91	0.04%
Russell 2000	1,768.99	1,761.25	0.44%	1,802.48	-1.86%
FTSE 100	7,870.57	7,451.74	5.62%	7,631.74	3.13%
Shanghai Composite	3,323.28	3,089.26	7.58%	3,272.86	1.54%
Nikkei Stock Average	28,856.44	26,094.50	10.58%	28,041.48	2.91%
Stoxx Europe 600	466.64	424.89	9.83%	457.84	1.92%
MSCI Emerging Markets	977.05	956.38	2.16%	990.28	-1.34%
MSCI Emerging Markets Small Cap	1,172.58	1,127.18	4.03%	1,167.11	0.47%

Performance of S&P 500 by Industry:	**% of Index as of 12/30/22**	**1 Month**	**3 Month**	**Year to Date**	**12 Months**
Consumer Discretionary	9.78%	-0.99%	-0.33%	14.61%	-14.77%
Consumer Staples	7.39%	3.44%	4.71%	3.60%	-3.06%
Energy	4.61%	3.20%	-5.12%	-2.55%	11.63%
Financials	13.07%	3.02%	-9.29%	-3.22%	-7.16%
Health Care	14.50%	2.96%	0.13%	-1.90%	-0.10%
Industrials	8.54%	-1.22%	-1.84%	1.77%	2.41%
Information Technology	25.80%	0.42%	11.66%	22.00%	2.52%
Materials	2.59%	-0.17%	-4.94%	3.58%	-6.91%
Communication Services	8.28%	3.56%	8.96%	24.46%	-3.42%
Utilities	2.90%	1.82%	-0.26%	-2.29%	-6.12%
Real Estate	2.52%	0.83%	-7.26%	1.88%	-22.73%
S&P 500 (Absolute performance)	100.0%	1.46%	2.28%	8.59%	-2.75%

Interest Rates:	**4/28/2023**	**12/30/2022**	**YTD Change (Basis Points)**	**3/31/2023**	**Month Change (BPS)**
Fed Funds Effective Rate	4.83%	0.09%	474	4.83%	0
Prime Rate	8.00%	7.50%	50	8.00%	0
Three Month Treasury Bill	4.81%	0.09%	472	3.37%	144
Ten Year Treasury	3.42%	3.87%	-45	3.47%	-5
Spread - 10 Year vs 3 Month	-1.39%	3.79%	-518	0.10%	-148

Foreign Currencies:	**4/28/2023**	**12/30/2022**	**% Change YTD**	**3/31/2023**	**% Change (Monthly)**
Brazil Real (in US dollars)	0.20	0.19	6.0%	0.20	1.5%
British Pound (in US dollars)	1.26	1.21	4.0%	1.23	1.9%
Canadian Dollar (in US dollars)	0.74	0.74	0.0%	0.74	-0.3%
Chinese Yuan (per US dollar)	6.91	6.90	0.2%	6.87	0.6%
Euro (in US dollars)	1.10	1.07	2.9%	1.08	1.7%
Japanese Yen (per US dollar)	136.30	131.12	4.0%	132.86	2.6%

Commodity Prices:	**4/28/2023**	**12/30/2022**	**% Change YTD**	**3/31/2023**	**% Change (Monthly)**
CRB (Commodity) Index	547.45	554.78	-1.3%	550.63	-0.6%
Gold (Comex spot per troy oz.)	1990.00	1824.02	9.1%	1969.28	1.1%
Oil (West Texas int. crude)	76.78	80.26	-4.3%	75.67	1.5%
Aluminum (LME spot per metric ton)	2368.00	2349.51	0.8%	2376.75	-0.4%
Natural Gas (Futures 10,000 MMBtu)	2.41	4.48	-46.1%	2.22	8.8%

Economic Indicators:	**3/31/2023**	**12/31/2021**	**% Change YTD**	**2/28/2023**	**% Change (Monthly)**
Consumer Price Index	301.8	280.9	7.4%	301.7	0.05%
Producer Price Index	253.9	233.5	8.7%	259.95	-2.34%
	Q1 2023	**Q4 2022**	**Q3 2022**	**Q2 2022**	**Q1 2022**
GDP Growth Rate (Quarterly)	1.10%	2.60%	3.20%	-0.60%	-1.60%
Unemployment Rate (End of Month)	**March** **3.5%**	**February** **3.6%**	**January** **3.4%**	**December** **3.5%**	**November** **3.6%**

*GDP growth rate is calculated as the percent change from the previous period seasonally adjusted at annual rates. **S&P Sectors were re-named at the end of 2001. The sector Industrials is a combination of the former sectors Capital Goods & Transportation.Sources: Wall Street Journal, Bloomberg, The Department of Labor, The Bureau of Labor Statistics, The Bureau of Economic Analysis, US Treasury website.

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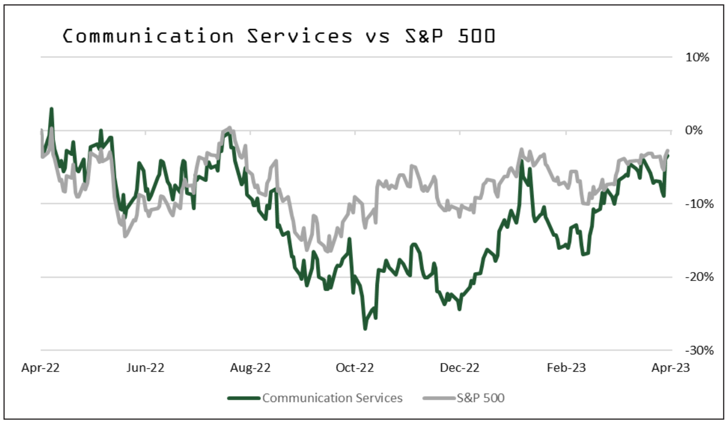
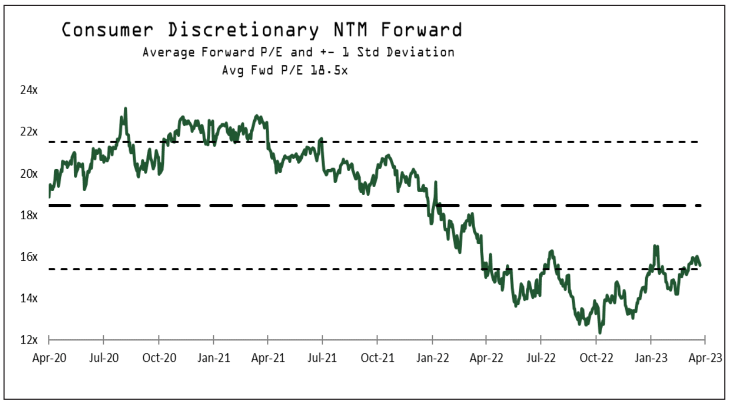
Sector Updates





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
3.56%	8.96%	24.46%	-3.42%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
1.46%	2.28%	8.59%	-2.75%

	Company Performance	1 Month
Leader	Meta Platforms Inc	13.4%
	Comcast Corp	9.1%
	Electronic Arts Inc	5.7%
	Paramount Global	4.6%
	Take-Two Interactive	4.2%
Laggards	DISH Network Corp	-19.5%
	Warner Bros Discover	-9.9%
	Activision Blizzard Inc	-9.2%
	AT&T Inc	-8.2%
	Netflix Inc	-4.5%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$10.65	$12.29	$14.36
18.6x	16.1x	13.8x

Sector Update

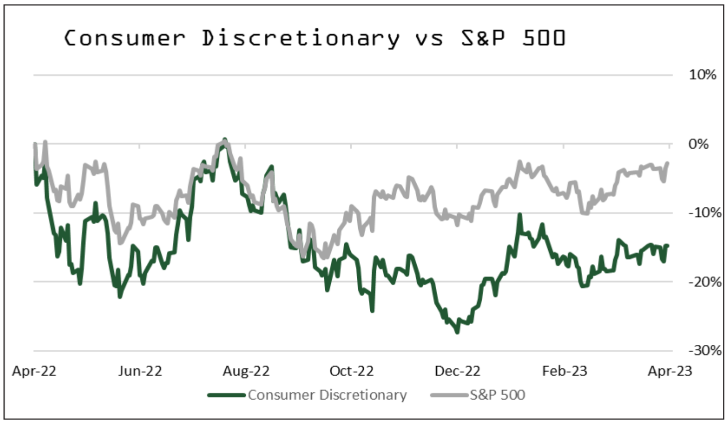
Communications Services (+3.56%) and the Interactive Media Services sub-sector (+6.5%) outperformed the market in April due to the sharp rise in the shares of Meta Platforms. The company reported better-than-expected 1Q '23 results, including 7% growth in advertising revenue. The company's application of artificial intelligence (AI) contributed to improved ad conversions and increased user time spent on META's platform. META reported that its advertisers obtained a higher return on their ad spend from improved ad conversions and lower cost of customer acquisition.

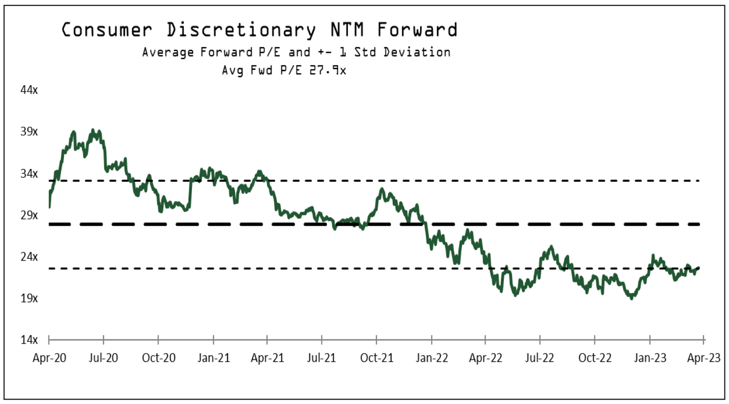
META's AI Discovery engine provided up to 40% of the content viewers see on Instagram, including many of the Reels short form videos. Since launching Reels, AI recommendations contributed to a 24% increase in time spent on Instagram. The company is working on improving the monetization efficiency of Reels (the amount of ad revenue generated for each minute of video watched). META reported that the monetization efficiency of Reels is up 30%+ on Instagram and 40%+ on Facebook on a sequential basis. The company expects to improve the monetization of Reels so that user time on Reels (currently dilutive to profits) has a neutral impact on Meta profits by year-end 2023/early 2024.

The Entertainment sub-sector (-1.9%) underperformed the market due to the decline in the shares of Netflix and Warner Brothers Discovery. Netflix disappointed investors with its guidance for second quarter subscriber additions of 1.75 million, 2 million below the consensus estimate. The company reported that its potential conversion of non-paying Netflix customers into paying customers is contributing to higher near-term customer turnover and lower-than-expected revenue and subscriber additions.

Given that the Communications Services sector trades at a discount to the market, we believe that the sector could outperform the market if the U.S. services sector continues to grow.

CONSUMER DISCRETIONARY





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
-0.99%	-0.33%	14.61%	-14.77%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
1.46%	2.28%	8.59%	-2.75%

	Company Performance	1 Month
Leader	Chipotle Mexican Grill	21.0%
	PulteGroup Inc	15.2%
	DR Horton Inc	12.4%
	Las Vegas Sands Corp	11.1%
	Hasbro Inc	10.3%
Laggards	Tesla Inc	-20.8%
	General Motors Co	-9.9%
	Carnival Corp	-9.3%
	Etsy Inc	-9.3%
	Aptiv PLC	-8.3%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$39.13	$47.64	$56.44
29.4x	24.2x	20.4x

Sector Update

The Consumer Discretionary sector underperformed the S&P 500 in April as discretionary spending pressures remained an investor concern. Sub-sector performance was led by gains in the Leisure Products and Household Durables categories. Sub-sector weakness in the month was particularly noteworthy in the Automobiles and Auto Components segments. On a year-to-date basis, the Consumer Discretionary sector has performed strongly on both an absolute basis and relative to the S&P 500 index as seen in the accompanying table. Despite these gains in 2023, on a trailing twelve-month period the Consumer Discretionary sector continues to sharply lag the S&P 500.

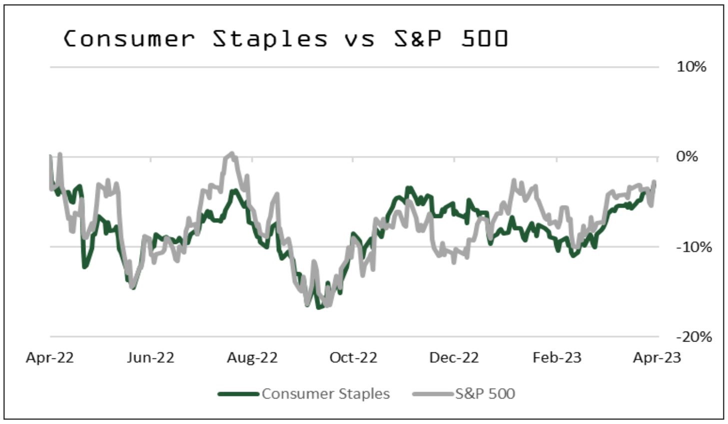
For the first time since early 2020, average rents in the U.S. declined according to Redfin data covering March of this year. According to the Redfin rent market tracker, median asking rent dropped 0.4% in March reaching the lowest level in thirteen months. The U.S. median rent was $1,937 for the month which is still about 20% higher than the level pre-pandemic. Rent increases have been slowing for the past year as supply has started to improve particularly in multifamily units. Completed residential buildings with five or more units increased 72% year-over-year which at 509,000 is the highest level since 1987.

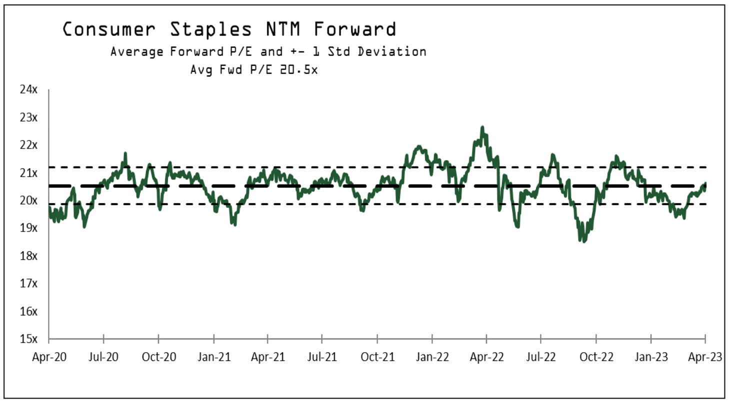
The National Association of Realtors reported that existing home sales in March dropped 2.4% to an annual rate of 4.44 million. This is a reversal from the gain seen in February as home buyers grapple with mortgage rates and supply challenges. Existing home prices dropped by 0.9% to $375,700 which was the biggest decline in prices since January 2012.

Retail sales for March declined 1.0% which was the fourth drop over the past five months. Excluding auto dealers and gas stations, core retail sales declined 0.3%. The March drop in retail sales was also the biggest drop in the past four months and did coincide with the recent banking sector crisis which may have impacted consumer shopping patterns. A key factor impacting the headline drop in retail sales was lower gas station sales which declined 5.5% influenced by lower gasoline prices versus the prior year. Discretionary sectors such as sales at home centers, electronics retailers, and department stores experienced some of the most significant drops while internet retailers grew in the period.

The Conference Board reported that Consumer Confidence in April fell to 101.3 reflecting a nine-month low and down 2.4 points from the March level. Amidst a challenging backdrop of uncertainty in the banking system, inflation, and the possibility of a U.S. recession, consumers signaled weakening confidence in the health of the economy.

CONSUMER STAPLES





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
3.44%	4.71%	3.60%	-3.06%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
1.46%	2.28%	8.59%	-2.75%

	Company Performance	1 Month
Leader	Molson Coors Beverage	15.1%
	Mondelez International	10.0%
	Church & Dwight Co Inc	9.9%
	Kimberly-Clark Corp	7.9%
	Hershey	7.3%
Laggards	Keurig Dr Pepper Inc	-7.3%
	Target Corp	-4.8%
	Bunge Ltd	-2.0%
	Archer-Daniels-Midland	-2.0%
	J M Smucker Co	-1.9%

Consensus FY EPS / P/E

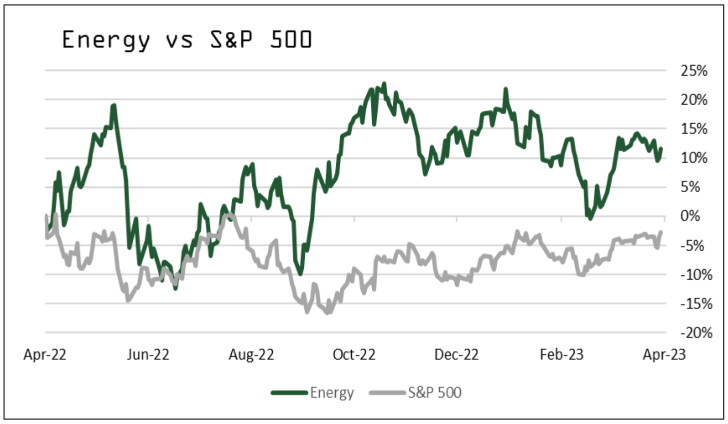
Last Year	Current Year	Next Year
$35.51	$37.49	$40.79
22.7x	21.5x	19.8x

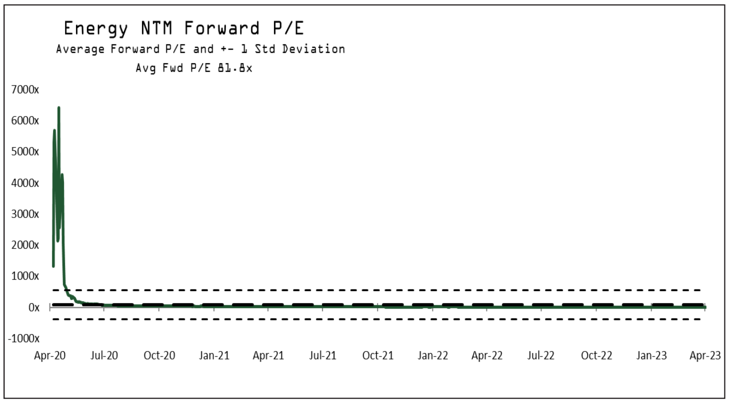
Sector Update

The Consumer Staples sector increased by 3.44% on average in April and well outperformed the S&P 500 Index which increased by 1.46%. The strongest contributors included household products, food products, and beverage segments. Investor sentiment gravitated towards exposure to the more defensive stock segment during the month given an uncertain global banking environment and economy. The Consumer Staples segment trades at a premium with a current forward P/E of 21.5x vs its average forward P/E of about 20.5x. Consumer Staples companies reporting favorable quarterly results benefitted from pricing, realized cost savings, strong consumer loyalty, and increasing service and inventory levels. Those companies trade with a premium valuation vs peers given confidence in execution and sustainable growth. Leading companies reported organic sales growth and gross margin expansion driven by pricing that offsets inflation cost pressures. As Consumer Staples companies report earnings updates, the conversation centers on the outlook for pricing, volume, input costs, the pace of market re-openings, consumer consumption levels and trade down trends, supply chain, and service levels. Overall, elasticities remain favorable despite consumers facing higher prices. 2H results should face moderating pricing and the importance of cost savings and realized efficiencies along with innovation and increased brand support to drive results. A slowdown in the top-line vs expectations in 2H and into 2024 raises the risk of an increased promotional environment. In addition, the discontinuation of SNAP payments creates a near-term headwind. Companies exposed to attractive growth segments including confectionery, snacks, beverages, and pet food remain attractive investments.

Within the beverage segment, the latest scanner data through April 23 shows volume holding up with the greatest strength in energy, CSDs, and imported beer with mixed results for hard seltzer entrants. For the packaged food segment, sales track higher supported by pricing and continued favorable elasticities. Innovation across both segments should accelerate in 2H as companies seek to remain relevant with consumers. Consumer Staples companies continue to approach the balance of 2023 with a more cautious outlook incorporating elasticities more in line with historical averages and modest volume assumptions. There is an upside to that assumption if elasticities trend more favorably. There is renewed interest in consolidation as consumer staples companies seek to drive faster top-line growth, reformulate brand portfolios and seek additional cost savings. If potential acquisitions do not occur, managements should return value to shareholders through dividends and share repurchases. We continue to advise selective investment among the Consumer Staples stocks and prefer an investment in companies with pricing, leading market share, strong balance sheets, and experienced management. Consumer Staples companies offer an attractive dividend yield.

ENERGY





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
3.20%	-5.12%	-2.55%	11.63%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
1.46%	2.28%	8.59%	-2.75%

	Company Performance	1 Month
Leader	Hess Corp	9.6%
	EQT Corp	9.2%
	Exxon Mobil Corp	7.9%
	Pioneer Natural	6.5%
	Devon Energy Corp	5.6%
Laggards	Valero Energy Corp	-17.9%
	Marathon Petroleum	-9.5%
	Phillips 66	-2.3%
	Kinder Morgan Inc	-2.1%
	Occidental Petroleum	-1.4%

Consensus FY EPS / P/E

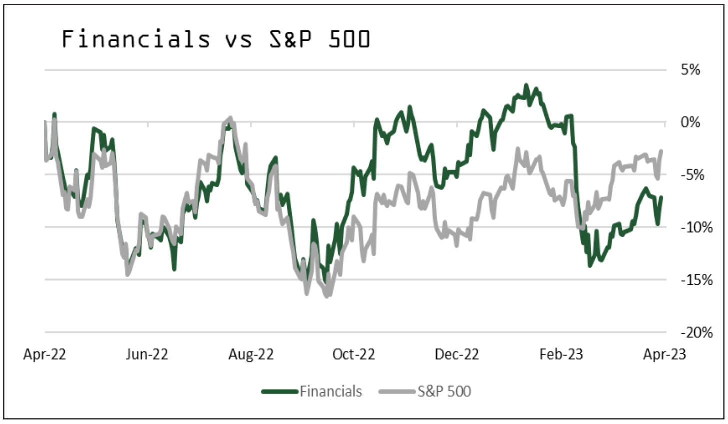
Last Year	Current Year	Next Year
$83.06	$61.06	$60.78
7.9x	10.7x	10.8x

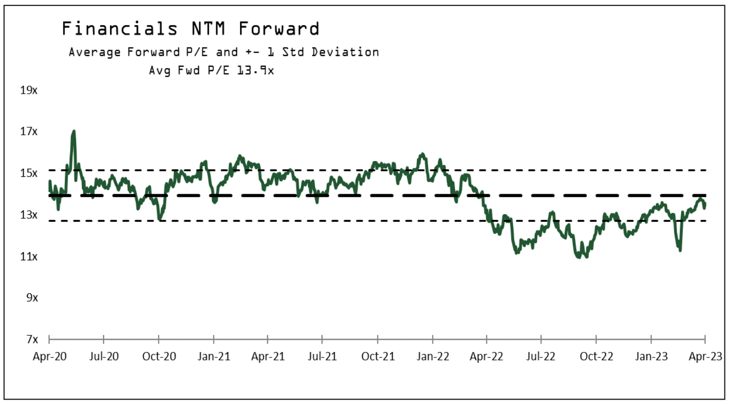
Sector Update

The Energy sector outperformed broader markets in April despite a generally challenging oil price environment. The strength in energy stock performance in the month versus the S&P 500 appears linked to longer-term demand fundamentals versus near-term downtrends in energy prices. Energy sector share price performance by sub-sector was led by sharp outperformance in the Oil, Gas & Consumables sub-sector versus the somewhat weaker Energy Equipment & Services sub-sector during the period. Although the Energy sector has lagged the S&P 500 during the trailing three-month, and year-to-date periods, the sector has sharply outperformed on a trailing twelve-month basis relative to the S&P 500, as seen in the accompanying table.

OPEC maintained its forecast for 2023 oil demand at 2.3 million barrels per day with supply expected to grow by 1.4 million barrels per day. We note that this outlook suggests a growing supply-demand fundamental imbalance while several OPEC members anticipate cutting production. Saudi Arabia announced that the country expects to cut oil production by 1 million barrels per day beginning in May. With the reopening of China expected to impact rising demand, the outlook for oil markets seems to be moving towards further tightness potentially supportive of oil prices as the market looks to move further into deficit. However, OPEC did highlight risks to the demand side such as rising interest rates that could offset demand for oil in the U.S. as well as hurdles presented by inflation and financial stability.

Oil commodity markets generally weakened through the month of April as continuing turmoil in the U.S. banking industry drove increased concerns about the potential for an economic slowdown or recession. Fear of an economic slowdown due to the recent banking sector issues raised concerns that oil demand could weaken and weigh on energy fundamentals. West Texas Intermediate (WTI) crude oil prices moved higher through mid-April before retracing back to finish the month relatively flat. WTI started April at around the $76 per barrel range and climbed over $83 per barrel before declining back to the $76 range at the end of the month and then declining further in early May. Natural gas prices climbed in April from about $2.22 per million Btu to end the month at about $2.41 per million Btu. Retail gasoline prices increased in April to $3.77 per gallon at the end of the month from the $3.53 average price seen at the end of March and are down sharply from the prior year's level of $4.21.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
3.02%	-9.29%	-3.22%	-7.16%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
1.46%	2.28%	8.59%	-2.75%

	Company Performance	1 Month
Leader	Brown & Brown Inc	12.1%
	Arch Capital Group Ltd	10.6%
	Arthur J Gallagher & Co	8.8%
	Jack Henry & Associates	8.4%
	Aflac Inc	8.3%
Laggards	First Republic Bank	-78.4%
	MarketAxess Holdings	-18.6%
	MSCI Inc	-13.8%
	Northern Trust Corp	-11.3%
	KeyCorp	-10.1%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$36.38	$40.26	$44.05
15.2x	13.7x	12.5x

Sector Update

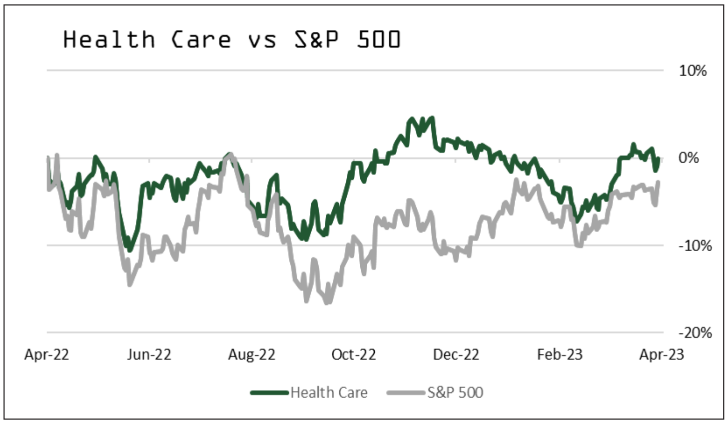
The Financials sector bounced from March lows with a 3.02% improvement in April, outpacing the 1.46% gain in the S&P 500, led primarily by insurers and diversified financial services. Bank sector turmoil remains apparent in trailing three and twelve-month performance, with the Financials sector lagging the broader market by a wide margin in both timeframes.

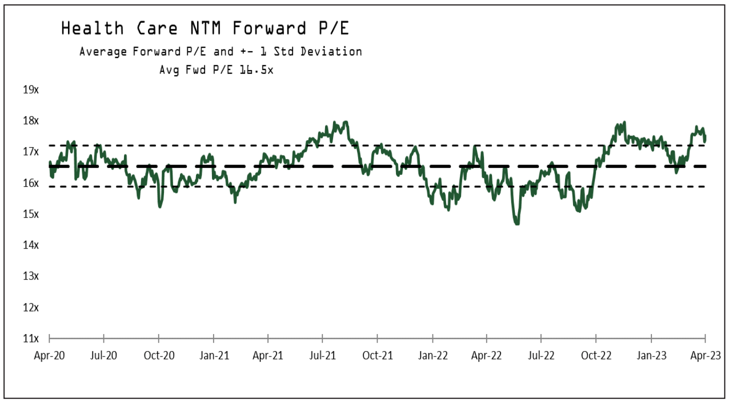
Earnings season was the primary focus in April, with Banks announcing mixed results and forward guidance. Bank earnings were largely better-than-expected on strong interest income growth, largely offset by increased credit costs and continued weakness in fee incomes as investment and mortgage banking activity remain depressed in the current interest rate environment. Following liquidity stresses and the failures of SIVB and SBNY in March, lenders made strong attempts to demonstrate solid deposit trends and outlined exposures to commercial real estate debt. While deposits declined on a year-over-year basis for most lenders, resulting from the Fed's quantitative tightening process and clients searching for yield, most large banks posted increased deposits relative to the prior quarter. Based on St. Louis Fed estimates, industry deposits declined 4.9% Y/Y for all commercial banks in the US at quarter-end. Increasing deposit competition and costs appear likely to put a lid on interest income expansion into FY24.

Despite surviving the March chaos, First Republic Bank (FRC) entered FDIC receivership with assets sold to JPMorgan (JPM) on May 1, 2023. Unlike many regionals reporting stabilized deposit balances in Q1, FRC announced ~$100B of deposits fled the bank in the quarter as part of its earnings report, excluding a $30B infusion from a consortium of the nation's largest 11 banks. With FRC hemorrhaging deposits and replacing funding with higher-cost borrowing, the bank further tumbled on proposed sales of up to $100B in securities—then shuttered by the FDIC just three days later.

While JPM CEO Jamie Dimon proclaimed the end of the current bank crisis after buying FRC assets at month-end, there remains significant uncertainty around the banking sector as the market incessantly searches for the next to fall.

Bank valuations appear more compelling following recent weakness, but the path forward remains ominous with a challenged earnings outlook and abundant recessionary/liquidity concerns. Against the current sector backdrop, we think size matters and patience is a virtue.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
2.96%	0.13%	-1.90%	-0.10%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
1.46%	2.28%	8.59%	-2.75%

	Company Performance	1 Month
Leader	Universal Health	18.3%
	Intuitive Surgical Inc	17.9%
	Baxter International Inc	17.6%
	Eli Lilly & Co	15.3%
	Medtronic PLC	12.8%
Laggards	Catalent Inc	-23.7%
	Moderna Inc	-13.5%
	Illumina Inc	-11.6%
	Danaher Corp	-6.0%
	Bio-Rad Laboratories	-5.9%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$78.86	$86.30	$94.34
19.7x	18.0x	16.5x

Sector Update

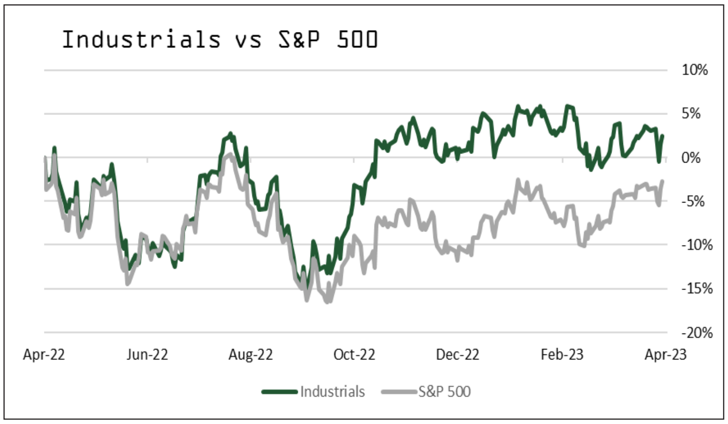
Markets were in a watch-and-wait mode in April given banking system challenges; signs of a weakening U.S. economy; and, tight Fed policy. As a result, the broad market represented by the S&P 500 advanced 1.46% for the month as initial first quarter 2023 corporate earnings reports came through ahead of consensus expectations despite falling below prior-year levels. The Health Care sector outperformed, rising by 2.96% in April driven by a recovery in medical procedures and surgeries provided across the country after year earlier pressures with the spread of Omicron COVID. Furthermore, given economic uncertainty in contrast to the steady demand anticipated to arise for health care products and services, we continue to see those investors taking a defensive stance focusing on the health care sector.

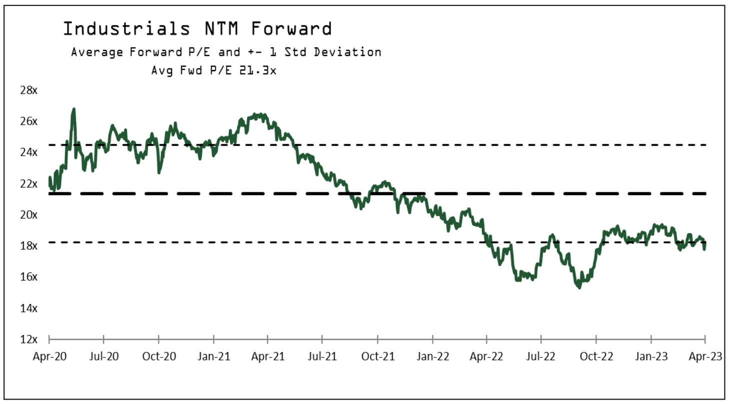
As illustrated in the adjacent tables, shares of Universal Health Services, Intuitive Surgical, Baxter International, Eli Lilly, and Medtronic each experienced double-digit share appreciation in April. Key macro factors combined to drive much of this move. As COVID has faded away, we have seen society broadly reopen with folks that have deferred elective medical treatments and or surgeries now returning to providers for treatment. Back last autumn, providers were still experiencing significant staffing shortages of nurses and medical technicians that limited available resources to offer treatments. Now, we have seen labor markets start to ease with Universal Health reporting admissions to their acute care medical hospitals rose by 10.5% in the 1Q2023 versus 1Q2022 when Omicron COVID remained on the scene. With procedure volumes on the rise, the medtech sector has rebounded smartly of late as Intuitive Surgical saw an increase of installs of its da Vinci surgical robotic system; Baxter shipped increased volumes of IV solutions; and Medtronic saw heightened demand for its cardiology technologies. Lilly shares were catalyzed by strong demand for new weight loss drugs, while clinical trials of their Alzheimer's therapeutic Donanemab have been promising.

Other health care sector issues lagged tied to either company-specific issues and or encountering tough comparisons given earlier upside strength driven by COVID product sales. Catalent shares sold off sharply after announcing three of their gene therapy manufacturing sites had experienced a slowdown expected to hit earnings, with the CFO departing. Moderna has seen demand for its COVID vaccine fall as expected, with a recent hoped-for trial of its mRNA-1010 influenza vaccine failing to deliver. Illumina shares tumbled as the latest quarterly results had sales falling low double digits raising questions on the near-term outlook for the company, while investor activists have called for replacement of senior management. And, Danaher reported that client inventory work downs that arose with COVID slowed, while demand for COVID diagnostics fell sharply as expected.

We continue to recommend selective investment in the Health Care sector – focusing on companies delivering value-added products and services, generating solid earnings and free cash flow to sustain intermediate growth and drive increased dividends/returns to investors.

INDUSTRIALS





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
-1.22%	-1.84%	1.77%	2.41%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
1.46%	2.28%	8.59%	-2.75%

	Company Performance	1 Month
Leader	Rollins Inc	12.6%
	CoStar Group Inc	11.8%
	Masco Corp	7.6%
	Stanley Black & Decker	7.1%
	Republic Services Inc	7.0%
Laggards	Ceridian HCM Holding	-13.3%
	IDEX Corp	-10.7%
	Robert Half Int	-9.4%
	United Rentals Inc	-8.8%
	Carrier Global Corp	-8.6%

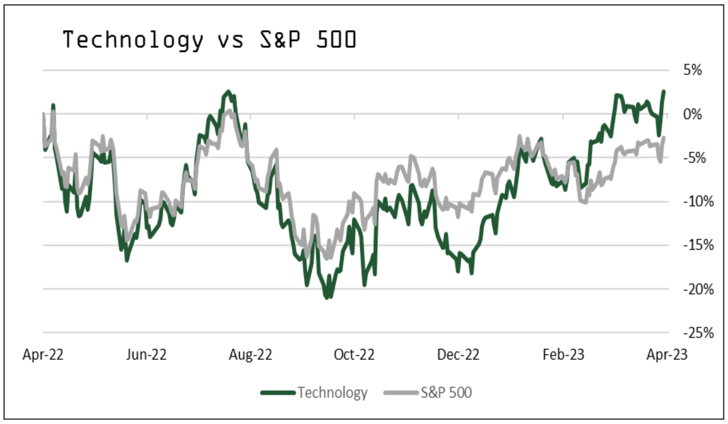
Consensus FY EPS / P/E

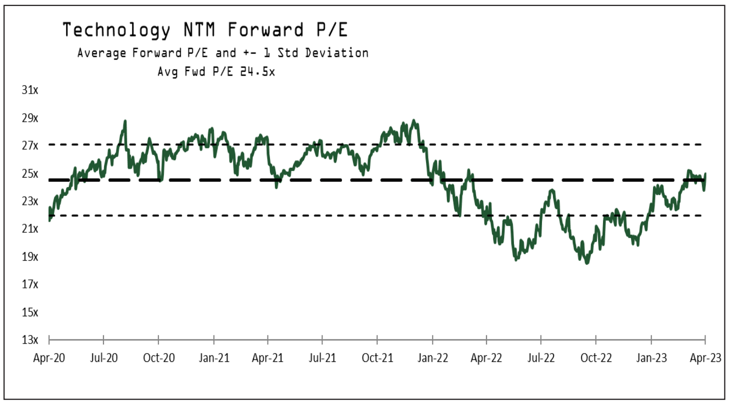
Last Year	Current Year	Next Year
$40.07	$44.40	$50.58
21.1x	19.1x	16.7x

Sector Update

The Industrials Sector’s -1.22% decline lagged the S&P 500’s increase of 1.46% in April as investors moved away from cyclical Industrial stocks amid macroeconomic uncertainty. The Industrial Conglomerates subsector led the Industrials sector in April with a gain of 3.5%, while the Air Freight and Logistics subsector lagged the Industrial sector for the month with a decline of 4.4%. Last month’s worst-performing subsector, Airlines, continued its decline in April with a 3.4% decrease, as investors worry about slowing revenue per available seat mile and costs creeping higher. Inflation-adjusted earnings remain near pre-pandemic levels within the Industrial sector, although the pricing power that Industrial companies have benefited from may be poised to slow alongside elevated interest rates. The ISM reported PMIs at 47.1%, an uptick from its March low of 46.3%. PMIs remain below the 50% threshold signaling a contraction in the manufacturing sector for the fifth consecutive month, suggesting that slower manufacturing growth is likely to come. In recent months, downward trending PMIs have signaled relief on the inflation front and therefore provided a silver lining for investors due to the increased likelihood that the Federal Reserve will start easing fiscal policy. As inflation has begun to trend downward and the Federal Reserve has remained committed to elevated interest rates, investors have begun to digest falling PMI numbers as a growing concern that slowing Industrials activity is on the horizon.

The April manufacturing PMI registered 47.1%, 0.8% higher than the March reading of 46.3%, and again under the 50% contraction cutoff, representing a contraction in the manufacturing sector of the economy for the fifth consecutive month. The New Orders Index remained in contraction territory at 45.7%, 1.4% higher than the March figure of 44.3%. Panelists reported that companies continued to experience uncertainty regarding future customer demand. The Industrials Sector is trading at a Forward P/E of 19.1x, down 0.2 points from last month’s Forward P/E of 19.3x and also below the sector’s three-year average of 21.3x.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
0.42%	11.66%	22.00%	2.52%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
1.46%	2.28%	8.59%	-2.75%

	Company Performance	1 Month
Leader	Tyler Technologies Inc	6.9%
	Micron Technology Inc	6.7%
	Microsoft Corp	6.6%
	VeriSign Inc	5.0%
	Akamai Technologies Inc	4.7%
Laggards	F5 Inc	-28.7%
	Enphase Energy Inc	-21.9%
	First Solar Inc	-16.1%
	Teradyne Inc	-15.0%
	CDW Corp/DE	-13.0%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$88.36	$99.09	$114.92
30.0x	26.7x	23.1x

Sector Update

The Technology sector (+0.4%) underperformed the market in April due to the decline in the Communications & Equipment (-7.9%) and Semiconductors & Semiconductor Equipment (-4.8%) sub-sectors.

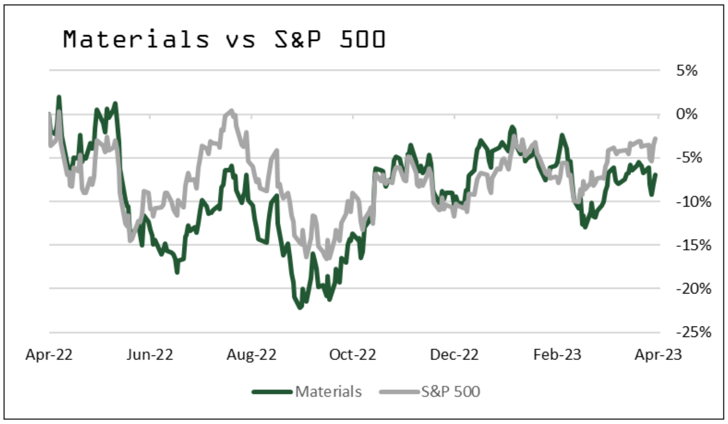
Ericsson and Nokia, the largest 5G wireless telecommunications equipment manufacturers, reported lower-than-expected results due to reduced U.S. carrier spending in the March quarter as they wound down the buildout of their 5G networks.

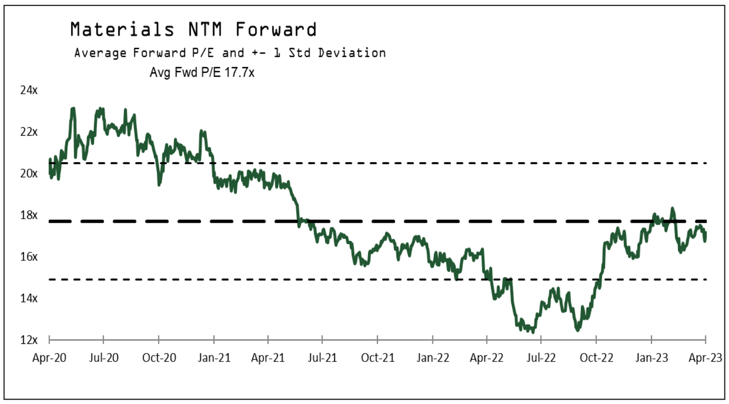
Taiwan Semiconductor (TSM), the largest semiconductor equipment manufacturer, provided 2Q ‘23 and FY23 guidance below the consensus estimate due to lower-than-expected demand in the IOT, PC, and smartphone markets.

The company expects its FY23 revenue to decline low to mid-single digits year-over-year and expects semiconductor industry revenue, excluding the memory sector, to decline at a similar pace. TSM expects its second half FY23 revenue to increase compared to the first half of FY23 driven by higher demand in the high-performance computing and smartphone markets. While TSM reported growth in its automotive revenue in the first quarter, the company noted that there were potential signs that automotive demand could weaken in the second half of FY23.

Software (+4%) was the best-performing Technology sub-sector in April driven by the rise in the shares of Microsoft after the company reported better-than-expected 3Q ‘23 results. While technology companies noted a more cautious IT spending environment, corporations are consolidating their IT spending with companies such as Microsoft that provide a wide range of software and services to improve worker productivity and corporate workflows. Microsoft will enhance its cloud software and services (Office 365 and Dynamics 365) with generative AI technology to enhance worker productivity.

The Technology sector has a P/E of 26.7x the consensus FY23 EPS estimate, above its average 12-month forward P/E multiple of 24.5x. Given that the Technology sector appears close to fairly valued and could be impacted by weaker-than-expected global IT spending, we believe it could underperform the market in the near term.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
-0.17%	-4.94%	3.58%	-6.91%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
1.46%	2.28%	8.59%	-2.75%

	Company Performance	1 Month
Leader	Sherwin-Williams Co	5.7%
	International Flavors	5.4%
	PPG Industries Inc	5.0%
	Sealed Air Corp	4.5%
	Linde PLC	3.9%
Laggards	Albemarle Corp	-16.1%
	International Paper Co	-8.2%
	Steel Dynamics Inc	-8.1%
	Freeport-McMoRan Inc	-7.3%
	Mosaic Co	-6.6%

Consensus FY EPS / P/E

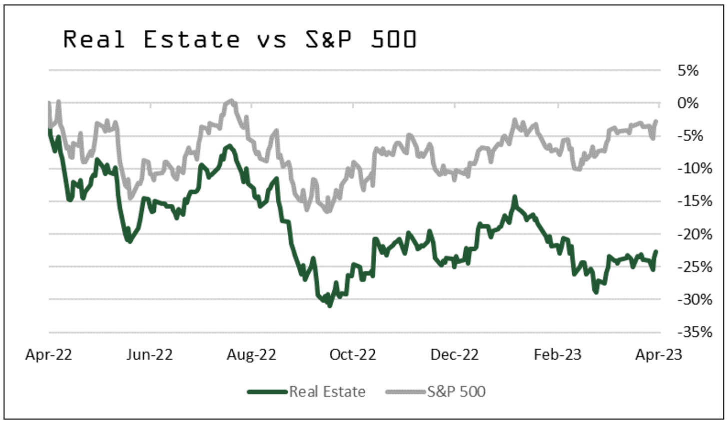
Last Year	Current Year	Next Year
$32.35	$29.41	$30.98
15.7x	17.2x	16.4x

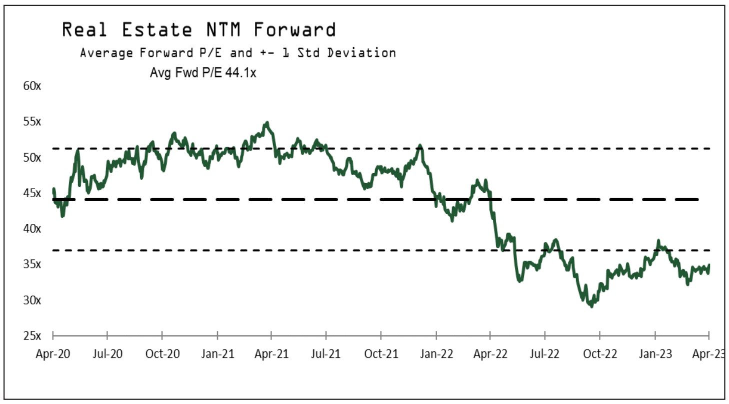
Sector Update

The Materials segment decreased by 0.17% in April and underperformed the S&P 500 Index which increased by 1.46%. The chemicals and construction materials segments both increased low-single digits in the month while the containers and packaging and metals and mining segments both declined. The Materials segment continues to trade with a current forward P/E that is slightly below its average forward P/E of about 17.7x. While the Fed raised rates by 25bp in May, the question now centers on whether the tightening cycle ends and potentially provides a catalyst for the building stocks in 2H of 2023. Uncertainty in the banking segment continues to create near-term enhanced volatility. For 2H, the focus remains on the macroeconomic environment and potential for a recession, realized pricing, inventory levels, and consumer demand. Preferred areas for potential investment include hydrocarbon, coatings, and lithium. Selective investment among the group remains a key factor.

In the midst of earnings season, the outlook for the domestic housing market remains a primary conversation given the Fed's approach to inflation and interest rates along with rising living costs for consumers. Rising mortgage rates could pressure some potential home buyers to exit the market, but that factor remains a key wildcard along with pricing dynamics. It is important to note that housing prices still remain elevated and supply remains tight, especially for low-priced housing options. Valuation for the stocks seems to price in a mild recession and any change to the view could present a catalyst. An investment in the macro trend towards clean energy including lithium and hydrogen remains attractive. Lithium stocks remain pressured on weaker lithium prices year-to-date while underlying demand tracks in line with expectations. The security of lithium supply remains a key factor for its customers. Industry position and well-diversified lithium assets remain key advantages. The North American spring crop planting season has started with a strong initial outlook. Farmers' planting intentions indicate a 4-5% increase in planted corn and soybean acreage. As farmers monitor costs, demand for fertilizer and potash remains in focus along with prices. Fertilizer remains in tight domestic supply supporting strong pricing while recent declines in potash prices support an improved outlook.

REAL ESTATE





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
0.83%	-7.26%	1.88%	-22.73%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
1.46%	2.28%	8.59%	-2.75%

	Company Performance	1 Month
Leader	Ventas Inc	10.8%
	Welltower Inc	10.5%
	AvalonBay Communities	7.3%
	Invitation Homes Inc	6.9%
	Equity Residential	5.4%
Laggards	Crown Castle Inc	-8.0%
	Extra Space Storage Inc	-6.7%
	Public Storage	-2.4%
	Host Hotels & Resorts	-1.9%
	Kimco Realty Corp	-1.7%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$6.42	$6.64	$7.39
36.9x	35.7x	32.0x

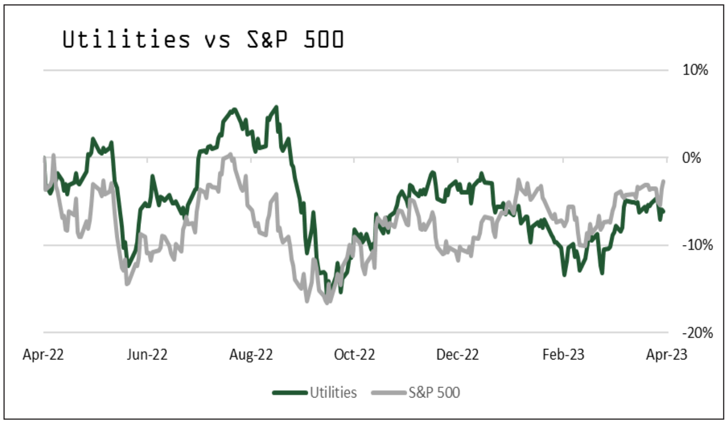
Sector Update

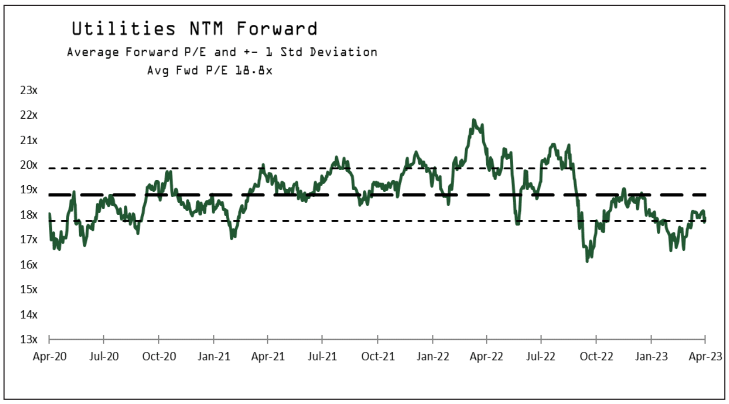
Fast-paced interest rate hikes by the Fed over the past year – rising from 0 to 500-525 basis points for the funds rate – have helped to drive a shakeout in the banking sector. The fallout from this situation has led to tightened lending standards by the banking sector that are poised to weigh on U.S. economic growth into 2024 – which has weighed heavily on the Real Estate sector. As is depicted in the adjacent tables, Real Estate valuations moved modestly higher in April although continuing to lag behind the broad market that saw the S&P 500 advance 1.46%. That is, rising interest rates earlier in 2022 saw alternative interest rate proxy investments compete with REITs with the sector underperforming, while concerns now arise over a slowing U.S. economy. All of this points to a challenging environment for the Real Estate sector as persisting in 2023.

Among the real estate subsectors, commercial real estate has experienced heightened uncertainty with the recent banking crisis. Office occupancy rates have deteriorated with prospects on rental rates unsettled as corporations look to cost cuts including square footage occupied, while floating rate debt employed by many in the sector has seen rates rise further pressuring operating results. Of late, weaker earnings outlooks among others in the real estate sector have cropped up with shares of Crown Castle and Extra Space Storage lagging to a greater degree. Crown Castle faces a range of growth challenges as Sprint/T Mobile churn arises, while DISH appears to be in a distressed situation and concerns over small cell growth trends persist – all weighing on the shares. Extra Space Storage missed on 1Q2023 FFO expectations, while the announced acquisition of Life Storage is anticipated to produce initial modest dilution, leading to underperformance in April.

On the other hand, two subsectors that appear to be well positioned to sustain growth – senior housing and apartments – advanced smartly in April. Both Ventas and Wellcare, two leaders in the health care REIT space, have significant exposure to senior housing through networks of assisted living properties. Continuing in recovery mode post the COVID pandemic, while absorbing new capacity that came on stream in mid-decade, occupancy rates have risen for this subsector with double-digit NOI growth being reported. In the multifamily/apartment subsector, AvalonBay, Invitation Homes, and Equity Residential each experienced strong occupancy rates and solid same-store revenue growth at high single digits. Rental rates on renewals have slowed, but continue to run in the 8% range for many sector leaders. And, higher interest rates have also juiced interest income for sector leaders – all combining to drive solid reports for 1Q2023 FFO.

Selectivity remains key for those sifting through the Real Estate sector 1Q2023 earnings reports seeking investment opportunities – with a challenging environment poised to persist and competitive returns available from fixed-income markets.





Source : Bloomberg

Sector Performance

1 Month	3 Months	YTD	TTM
1.82%	-0.26%	-2.29%	-6.12%

S&P 500 Performance

1 Month	3 Months	YTD	TTM
1.46%	2.28%	8.59%	-2.75%

	Company Performance	1 Month
Leader	PG&E Corp	5.8%
	Southern Co	5.7%
	Edison International	4.3%
	Xcel Energy Inc	3.7%
	CenterPoint Energy Inc	3.4%
Laggards	AES Corp/The	-1.7%
	Constellation Energy	-1.4%
	Pinnacle West Capital	-1.0%
	Eversource Energy	-0.8%
	FirstEnergy Corp	-0.6%

Consensus FY EPS / P/E

Last Year	Current Year	Next Year
$17.13	$18.79	$20.29
20.4x	18.6x	17.3x

Sector Update

The Utilities sector posted a 1.82% gain in April, outpacing the 1.46% improvement in the S&P 500 with the sector likely benefitting from broader risk-off behavior in the wake of bank sector turmoil and relatively stable interest rate behavior as the market expectations pointed toward a peak in the Fed Funds rate likely being reached in early May. The Utilities sector continues to lag the S&P in the past three and twelve-month periods.

While yields were relatively stable point-to-point in April compared to the prior month, a ~15bps retrenchment in 10-year yields in the first week of April drove a 7.5% rally in the Utilities sector, with leaders PG&E (PCG) and Southern (SO) largely holding in gains from early in the period.

All but one Utilities sub-sector posted monthly gains in April, led by Multi-Utilities at 2.3%. Electric Utilities gained 1.7%, while Water Utilities, including just American Water Works (AWK), advanced 1.2% in the period. Independent and Renewable Producers, including just AES Corp (AES) was the sector laggard for a second consecutive month, declining 1.7% after a 2.4% pullback in March.

News flow was relatively slack for much of the sector in April, with Utilities primarily reporting later in earnings season into the early May timeframe. Key themes, including significant multi-year renewable and grid transformation investments, remain the focus of the sector; however, rising interest costs and unseasonably warm weather in Q1 are likely to be earnings headwinds near-term.

While we continue to think many Utilities are somewhat ‘caught in the middle’ between historical defensiveness and inflationary pressures against long-term capital expenditure backlogs and increased borrowing costs—the sector appears more attractively valued relative to its historical earnings multiple. Investors are no longer pinned to bond proxy equities in a search for income; however, a potential peak in interest rates having occurred or a relative weakening in broader market earnings trends could be drivers of multiple expansion and performance in the sector.

ECONOMIC CALENDAR

Date	Release	For	Prior
8-May	Wholesale Inventories	Mar	0.10%
10-May	MBA Mortgage Applications Index	5/6	-1.2%
10-May	CPI	Apr	0.10%
10-May	Core CPI	Apr	0.40%
10-May	EIA Crude Oil Inventories	5/6	-1.28M
10-May	Treasury Budget	Apr	-$378.1B
11-May	PPI	Apr	-0.5%
11-May	Core PPI	Apr	-0.1%
11-May	Initial Claims	5/6	242K
11-May	Continuing Claims	4/29	1805K
11-May	EIA Natural Gas Inventories	5/6	+54 bcf
12-May	Import Prices	Apr	-0.6%
12-May	Import Prices ex-oil	Apr	-0.5%
12-May	Export Prices	Apr	-0.3%
12-May	Export Prices ex-ag.	Apr	-0.2%
12-May	Univ. of Michigan Consumer Sentiment - Prelim	May	63.5
15-May	Empire State Manufacturing	May	10.8
15-May	Net Long-Term TIC Flows	Mar	$71.0B
16-May	Retail Sales	Apr	-1.0%
16-May	Retail Sales ex-auto	Apr	-0.8%
16-May	Industrial Production	Apr	0.40%
16-May	Capacity Utilization	Apr	79.80%
16-May	Business Inventories	Mar	0.20%
16-May	NAHB Housing Market Index	May	45
17-May	MBA Mortgage Applications Index	5/13	NA
17-May	Housing Starts	Apr	1420K
17-May	Building Permits	Apr	1413K
17-May	EIA Crude Oil Inventories	5/13	NA
18-May	Initial Claims	5/13	NA
18-May	Continuing Claims	5/16	NA
18-May	Philadelphia Fed Index	May	-31.3
18-May	Existing Home Sales	Apr	4.44M
18-May	Leading Indicators	Apr	-1.2%
18-May	EIA Natural Gas Inventories	5/13	NA
23-May	New Home Sales	Apr	683K
24-May	MBA Mortgage Applications Index	5/20	NA
24-May	EIA Crude Oil Inventories	5/20	NA
25-May	Initial Claims	5/20	NA
25-May	Continuing Claims	5/13	NA
25-May	GDP - Second Estimate	Q1	1.10%
25-May	GDP Deflator - Second Estimate	Q1	4.00%
25-May	Pending Home Sales	Apr	-5.2%

ECONOMIC CALENDAR

25-May	EIA Natural Gas Inventories	5/20	NA
26-May	Personal Income	Apr	0.30%
26-May	Personal Spending	Apr	0.00%
26-May	PCE Prices - Core	Apr	0.30%
26-May	Durable Orders	Apr	3.20%
26-May	Durable Goods - Ex Transportation	Apr	0.30%
26-May	Adv. Intl. Trade in Goods	Apr	-$84.6B
26-May	Univ. of Michigan Consumer Sentiment - Final	May	NA
30-May	FHFA Housing Price Index	Mar	NA
30-May	S&P Case-Shiller Home Price Index	Mar	NA
30-May	Consumer Confidence	May	NA
31-May	MBA Mortgage Applications Index	5/27	NA
31-May	ADP Employment Change	May	NA
31-May	Chicago PMI	May	48.6
31-May	JOLTS - Job Openings	Apr	NA
31-May	EIA Crude Oil Inventories	5/27	NA
31-May	Fed's Beige Book	May	NA

DISCLOSURES

This information has been compiled from various sources we believe to be reliable, however, there is no guarantee of its accuracy or completeness. Any opinion expressed herein is based upon our interpretation of the information from such source. This information is not furnished in connection with a sale or offer to sell securities or in connection with the solicitation of an offer to buy securities. Our firm, or its offices or members of their families, may at times, have a long or short position in the securities mentioned herein and may make purchases or sales of these securities while this memorandum is in circulation.

Past performance is not indicative of future results.

An index is not available for direct investment; therefore, its performance does not reflect the expenses, fees and taxes generally paid with the active management of an actual portfolio.

Sectors and sector components defined by Standard & Poor's GICS Level 1 index. For the list of all holdings in GICS Level 1 index sectors, contact your Davenport Financial Advisor.

Leaders: Represent top five best stock price performance in the most recent calendar month within their respective GICS Level 1 Sector

Laggards: Represent top five worst stock price performance in the most recent calendar month within their respective GICS Level 1 Sector

Members: The GICS Level 1 Telecommunication Services sector has only three component companies. This sector will not include "Leaders and Laggards", but will show all three members and their price performance over the previous calendar month.

S&P 500®: The S&P 500 Index is comprised of 500 U. S. stocks and is an indicator of the performance of the overall U.S. stock market. Standard & Poor's Financial Services LLC, a division of S&P Global, is the source and owner of the registered trademarks related to the S&P 500 Index.

Dow Jones Industrials: The Dow Jones Industrial Average is an index of 30 "blue chip" stocks of U.S. "industrial" companies.

NASDAQ Composite: The Nasdaq-100 Index is a "modified capitalization-weighted" index designed to track the performance of a market consisting of the 100 largest and most actively traded non-financial domestic and international securities listed on The Nasdaq Stock Market, based on market capitalization.

Russell 2000®: The Russell 2000® Index is a capitalization-weighted index designed to measure the performance of a market consisting of the 2,000 smallest publicly traded U.S. companies (in terms of market capitalization) that are included in the Russell 3000® Index. Source: London Stock Exchange Group PLC and its group undertakings (collectively, the "LSE Group"). © LSE Group 2021. FTSE Russell is a trading name of certain LSE Group companies. "Russell®" is a trade mark of the relevant LSE Group companies and is used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote/sponsor/endorse the content of this communication.

FTSE 100: The FTSE 100 is an index of the leading shares on the London Stock Exchange. Shanghai Composite: The SSE Composite Index is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.

Nikkei Stock Average: Nikkei is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index comprised of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange. The Nikkei is equivalent to the Dow Jones Industrial Average Index in the United States.

Stoxx Europe 600: The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

MSCI Emerging Markets: The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. (MSCI Website).

MSCI Emerging Markets Small Cap: The MSCI Emerging Markets Small Cap Index includes small cap representation across 23 Emerging Markets countries. With 1,889 constituents, the index covers approximately 14% of the free float-adjusted market capitalization in each country. The small cap segment tends to capture more local economic and sector characteristics relative to larger Emerging Markets capitalization segments.

US Dollar Index (USDX, DXY): An index (or measure) of the value of the United States dollar relative to a basket of currencies, often referred to as a basket of US trade partners' currencies.

VIX: The ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

Shanghai Composite (SSE Index): The Shanghai Composite Index, also known as the SSE Index is a stock market index of all stock (A shares and B shares) that are traded at the Shanghai Stock Exchange.

Certification: As the primary authors of this report, we hereby certify that the views and opinions expressed herein accurately reflect our personal views and opinions about the principal subject(s) of this report. Further, I hereby certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or personal views expressed herein.

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